

**ELECTRICITY DISTRIBUTION PRICE CONTROL REVIEW
SEPTEMBER UPDATE**

**THE RESPONSE FROM CE ELECTRIC UK FUNDING COMPANY (CE),
NORTHERN ELECTRIC DISTRIBUTION LTD (NEDL) AND
YORKSHIRE ELECTRICITY DISTRIBUTION PLC (YEDL)**

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INTRODUCTION

1. This paper sets out the views of CE Electric UK Funding Company (CE), and its subsidiaries, Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL), in response to Ofgem’s publication *Electricity Distribution Price Control Review September Update* and the various associated documents (collectively, the *September update*).

APPENDIX 1 - NETWORK COST ASSESSMENT APPENDIX

Question 1: Do you consider the volume drivers proposed for customer demand connections to be appropriate?

2. In general, we support this proposal to flex the load-related allowance, subject to exceeding a deadband, should efficient spend exceed the forecasts set at DPCR5. We also support Ofgem’s proposals to true up the driver at the end of the DPCR5 period based on the actual DNO net to gross ratio.

Question 2: Do you consider the proposed reopener for low volume, high cost connections and general reinforcement appropriate? Is it set at the right level?

3. We support this proposal, which will allow correction of allowances and provide protection for both DNOs and customers from inaccurate forecasting in uncertain times.

Question 3: Do you agree with the proposed mechanisms (reopeners/logging-up) for dealing with uncertain costs?

Also covered in para 1.25 Appendix 2.

4. We agree that reopeners and logging-up are appropriate mechanisms to deal with different cases of uncertain costs. Reopeners are appropriate where costs are uncertain at the time of a price review but where the picture can clarify sufficiently early in the price review period and where the materiality is such that it is necessary to address the issue during the price control period rather than at the next review. This implies the need for a materiality threshold for the issue, and sufficient clarity on costs at the time of the reopener for the DNO to make an arguable case and for Ofgem to be able to make an informed response. Given that we are dealing with uncertainty, it may not always be appropriate or straightforward to set in advance a particular window within which a case for a reopener should be made. This has two consequences. First, it makes sense to retain flexibility as to whether the reopener window should be following year 2 or year 3. This can be decided by agreement between the industry and Ofgem

once the position becomes clearer. Second, it makes more sense to consider the detailed argument for a reopener when full year information on financial and load-related matters becomes available. This will be later in the year than March, and we would suggest August, following the production of the annual RRP returns.

5. On the other hand, logging-up should be used in cases where either a materiality threshold is unlikely to be reached or where the requirement and associated mitigation cost is clarified too late in the future price review period for it to be worthwhile considering the case for a reopener.
6. Our proposals relating to managing uncertain costs, relative to Ofgem's *September update*, are set out in the table below. The supporting rationale for our proposals is set out in this consultation response.

	Ofgem proposal	CE proposal
Reopeners		
Load related expenditure associated with general reinforcement and the shared element of high-cost low-volume connections that is DUoS funded	<p>Trigger: demonstration of net 20 per cent greater efficient expenditure on connections and general reinforcement than the Ofgem baseline; or</p> <p>By Ofgem at the end of DPCR5 if it determines that efficient expenditure is 20 per cent less than its assumption due to a change in demand and/or fewer high-cost connections.</p> <p>Timing: After March 2012 (reopener) with determination provided within four months or to be assessed by Ofgem at end of DPCR5.</p>	<p>Trigger: Accept.</p> <p>Timing: August rather than March. Retain flexibility between 2012 and 2013.</p>
Permitting schemes under TMA	<p>Trigger: Experience of permitting volumes.</p> <p>Timing: Either a reopener after March 2012 with determination provided within four months or to be assessed at DPCR6.</p>	<p>Trigger: Accept.</p> <p>Timing: August rather than March. Retain flexibility between 2012 and 2013, or for logging up.</p>

Rising and lateral mains	<p>Trigger: Ownership of assets clarified. DPCR5 period costs incurred/forecasted.</p> <p>Timing: Ex-ante allowance for first two years of DPCR5, after which allowances to be assessed through a reopener.</p> <p>Claw back of allowances may be employed where costs have been recovered from customers or where DNOs have not used all reasonable endeavours to establish ownership.</p>	Accept.
True up		
High-volume low-cost connections driver	True-up to be undertaken at DPCR6 based on actual net to gross ratio.	Accept.
Logging up/reopener		
CNI, black start and emergency batteries and HILP (to be logged-up together)	<p>Logging-up mechanism:</p> <p>To apply to 95% of incurred costs. All logged costs will be subject to an ex-post efficiency review.</p> <p>Timing: DPCR5 logged-up expenditure considered at DPCR6.</p> <p>Reopener:</p> <p>Trigger: Unspecified</p> <p>Timing: After March 2012 with determination provided within four months.</p>	<p>Strongly oppose 95% rather than 100%.</p> <p>Timing: Accept.</p> <p>Reopener trigger: one percent base demand revenue.</p> <p>Timing: August rather than March. Retain flexibility between 2012 and 2013.</p>

Question 4: Do you agree with our proposed methodology for setting flooding expenditure allowances for DPCR5?

7. We have argued that companies that have already undertaken cost-effective investment to deal with the sites most at risk and that are now faced with higher costs per site in the DPCR5 period may still find themselves penalised by the methodology proposed. Ideally, some allowance should be made to avoid penalising those who took action early. However, in the circumstances, we are not opposing Ofgem's proposals.

APPENDIX 2 - NETWORK INVESTMENT POLICY INDEX

Question 1: Do you consider our proposals for an application window to be appropriate?

Para 1.3 - Ofgem welcomes views on its proposals for the introduction of an application window for the reopeners relating to TMA and load related expenditure and also for the logged up expenditure items in the section below where they meet a predefined materiality threshold. It also welcomes views on the best point in time to place such a window.

Traffic Management Act:

8. Given that Ofgem has proposed that DNOs submit TMA forecasts on the unrealistic assumption that there will be no introduction of permit schemes during the DPCR5 period, provision for a reopener is essential. However, given the uncertainties over the timing and level of these costs, it is important that flexibility is retained in relation to the timing of consideration of any reopener, particularly given Ofgem's requirement to provide 12 months of permit-related cost data. If, because of the slower speed of introduction of permits by local authorities, Ofgem and the DNOs collectively become of the view that 2012 is too early for such a window, this should be deferred to 2013. Operating a reopener assessment process that commences in March and lasts for four months is reasonable.

Load-related expenditure and logged up expenditure items:

9. Although we would agree with the use of an application window for load-related expenditure and logged up expenditure items, we point out that the timing of such a window, as proposed by Ofgem, is unsuitable. It does not allow sufficient time to aggregate and quality check the two years of data required.
10. In operating such a mechanism, Ofgem would require companies to provide output measure data covering a two-year period in support of their respective reopener claims.

We point out that the output measure data available at March 2012 will only be based on network loadings experienced and forecast to the end of March 2011. Therefore, to make a reopener submission after the second year of the DPCR5 period, a reopener window from late summer 2012 would be appropriate.

Question 2: Do you consider our proposed approach for TMA costs to be appropriate?

11. In general, we agree with the approach proposed. However, we consider there is still uncertainty surrounding the number and type of inspections to be included. In our submission, only random sample inspection numbers were included, but routine and third-party inspections were not. However, the number of defects received was based on the total received against all inspection types. This has resulted in a higher proportion of inspection penalties than the 90% level proposed by Ofgem. We would welcome further clarity on how this is to be addressed.

Question 3: Do you consider our proposals for assessment of the load-related reopener to be appropriate?

12. We continue to believe there are weaknesses in the general application of a 20 per cent reopener trigger threshold, since the circumstances of individual DNOs may be materially different. However, on balance, we would accept Ofgem's proposals, including the basis on which Ofgem would carry out its assessment.

Supplementary question: Para 1.25 - Ofgem welcomes views on the appropriate level for a materiality threshold for reopening logged up expenditure items (CNI, black start capability and emergency batteries, HILP) or whether a threshold is unnecessary and expenditure in this area can be logged up in its entirety.

13. In line with the principles set out in paragraph 4 above, we would support the possibility of a reopener if costs exceeded a threshold amount. We would propose one per cent of base demand revenue.
14. That said, we are strongly opposed to Ofgem's proposal of a 5 per cent automatic disallowance of certain logged-up costs. Such a presumption could only be justified if a sum had been put into the cost allowances in the first place. Where no allowance has been made, there is no rationale for an automatic disallowance of 5 per cent. The argument that a disallowance enhances efficiency incentives is misconceived.